

## OVERVIEW

Brazil has a large and diversified economy that offers US companies many opportunities to export their goods and services. As Brazil's largest single trading partner, the US enjoys a strong reputation in a variety of sectors. This report will cover relevant aspects of the Financial Sector and it is one of a series that is published by the US Commercial Service's team of sector experts throughout the year. If you do not see an opportunity for your product here, please check out our other reports at [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil) and consider contacting us directly to find out if we can help you export to Brazil.

## SUMMARY



The largest in South America, Brazil's banking system is highly developed and efficient and offers a wide range of financial services. As such, financial institutions are very important clients for a wide variety of products and services. This report addresses the purchasing habits of financial institutions. This can be an insightful resource of information for US companies targeting customers in the financial sector.

A large and sophisticated Brazilian financial sector is in part a legacy of the high inflation period when good financial management was critical for a firm's survival. Despite current moderate inflation rates, and very high interest rates, bank-lending spreads are extremely high due to taxation, risk, and administrative overhead. The Central Bank has drawn attention to this phenomenon and has proposed a number of measures aimed at reducing the margin charged by banks.

## SELLING TO BANKS IN BRAZIL

The great majority of the banks in Brazil aims for a positive relationship with their suppliers and invest to build enduring and mutually beneficial partnerships. The following information shows the performance of the banks in building transparent, social responsible, and ethical relationships with their network of suppliers.

In 2004, 39.4% of the banks surveyed by Febraban (Brazilian Federation of Banks) said that in addition to the usual legal requirements, they also include social and environmental criteria when selecting or screening suppliers. 21.1% of the banks claimed to have a formal system to integrate and align suppliers' activities with the bank's positions. Some banks have even included this in contractual clauses.

## EVOLUTION OF THE NUMBER OF SUPPLIERS

2002	2003	2004
32,931	44,499	69,924

Reputation of suppliers is becoming more and more important to banks, 60.6% of the surveyed financial institutions look at ethical practices adopted by the potential supplier, especially on issues related to database, client privacy, and information management. 45.5% of the banks have contractual clauses that forbid suppliers of engaging in child labor and articulate means to promote the awareness of this issue.

## CONSOLIDATIONS RESULTS IN INDUSTRY STABILITY

The banking industry within Brazil did not undergo major changes in 2004. This stability is likely a result of the consolidation within the financial services market that took place over the last decades. Competition among banks is expected to increase as institutions seek larger shares of the market, and technology should play an increasingly important role in enabling firms to expand their services efficiently.

	Years					Variation 2004/2003
	2000	2001	2002	2003	2004	
Number of Banks	192	182	167	164	164	0.0%
Private local with and without foreign capital	105	95	87	88	88	0.0%
Private foreign	70	72	65	62	62	0.0%
Public federal and state	17	15	15	14	14	0.0%

Source: (1) Central Bank of Brazil (BACEN) - [www.bcb.gov.br](http://www.bcb.gov.br) - charts 1 and 15

## SUPPORTING NETWORK GROWTH

The number of branches and banking offices has also remained stable over the last five years, although the ATM – Automatic Teller Machine – network continue to grow albeit at a lower rate when compared to previous years. The most significant growth is the expansion of new channels to serve clients: these are third party agents such as lottery shops, post offices, notary offices, retail chains, etc, performing several transactions that in the past were only possible at a bank branch. In reality these agents are an extension of the banking services providers using the infrastructure and facilities of new partners.

	Years					Variation 2004/2003
	2000	2001	2002	2003	2004	
Number of branches	16,396	16,841	17,049	16,829	17,260	2.6%
Traditional branches*	9,495	10,241	10,140	10,045	9,837	-2.1%
Electronic stations	14,453	16,748	22,428	24,367	25,595	5.0%
Bank agents**	13,731	18,653	32,511	36,474	46,035	26.3%
Total facilities	54,075	62,483	82,128	87,715	98,727	12.5%

Source: [www.bcb.gov.br](http://www.bcb.gov.br)- chart 5 – number of facilities

(\*) Includes Banking Offices (PAB), Collection and Payment Offices (PAP), Advanced Banking Offices (PAA), and Separate Administrative Units (UAD).

(\*\*) Source: Febraban Forecast

## FACILITIES BY TYPE OF OWNERSHIP

Out of a 164 banks, 14 are owned by the government, and these 14 represent 44% of all the facilities installed in the country, that is, 40% of the branches, 47% of the banking offices and 46% of ATMs. Brazilian private groups own 88 banks and respond for 35% of installed facilities. There are 62 foreign private banks with a more compact network, accounting for 19% of the active facilities in the Brazilian territory.



	Banks (*)		Branches (**)		Traditional offices (**)		Electronic stations (**)		Total Facilities (***)	
	Qty	Shares %	Qty	Shares %	Qty	Shares %	Qty	Shares %	Qty	Shares %
Brazilian private	88	54	5,974	35	2,095	21	11,113	43	19,182	36
Foreign private	62	38	4,323	25	3,144	32	2,755	11	10,222	19
Government	14	9	6,963	40	4,598	47	11,727	46	23,288	44
Total	164	100	17,260	100	9,837	100	25,595	100	52,692	100

Sources:

(\*) Central Bank of Brazil

(\*\*) Febraban Forecast

(\*\*\*) Dos not include bank agents

## NUMBER OF ACCOUNTS, DEBT CARDS, AND CUSTOMERS USING INTERNET BANKING

The number of current accounts and savings accounts has shown little change in 2004. However, a remarkable expansion has occurred in the customers' segment that has begun to use the Internet to carry out their financial transactions. This group has doubled in two years, totaling more than 18 million at the end of 2004. The huge entrance of small-size companies that have also benefited from the convenience provided by the virtual network has contributed to the increase of number of companies using Internet Banking.

Quantity in Million	2000	2001	2002	2003	2004	Variance 2004/2003
Current Account (1)	55.8	63.2	66.7	71.5	73.9	3%
Savings Customers (2)	45.8	51.2	58.2	62.4	67.9	9%
Debt Cards (Including Multiple)	-	-	-	-	165.4	-
Office Banking Customers (Companies)*	1.5	1.3	1	0.7	0.6	-14%
Internet Banking Customers*	8.3	88.8	9.2	11.7	18.1	55%
Internet Banking Customers (Companies)	-	-	0.9	1.1	1.9	73%
Internet Banking Customers (Individuals)	-	-	8.3	10.6	16.2	53%

Source:

1. Febraban Forecast

2. Brazilian Association of Real Estate Credit and Savings Entities (Abecip)

### THIRD-PARTY FUNDS MANAGEMENT

Third-party funds held by the banks grew 18% in their different modalities, thus exceeding the inflation rate registered in 2004. This confirms the on-going expansion of the banking system customer base. The attractive remuneration on deposits has resulted in a 30% increase in the volume of funds in deposits over 2003.

Funding (balances at end of period) in R\$ Billion (R\$ stands for Reais, Brazilian currency)											Variance
	2000	Share %	2001	Share %	2002	Share %	2003	Share %	2004	Share %	2003 / 2004
Demand deposits	45.7	9.10%	51	9%	65.5	10.50%	66.6	8.70%	75.9	8.40%	14%
Savings deposits	111.9	22.30%	120	21.30%	140.9	22.60%	144.1	18.90%	158.9	17.70%	10.30%
Time deposits	89.9	17.90%	107.6	19.10%	137.6	22.10%	144.2	18.90%	188.1	20.90%	30.40%
Funds	253.8	50.60%	285.3	50.60%	279.6	44.80%	408.1	53.50%	476.7	53%	16.80%
Total	501	100%	563.9	100%	623.6	100%	763	100%	899.6	100%	17.90%

Source: Central Bank of Brazil (BACEN)

### PAYMENT COLLECTION SERVICES FOR UTILITY COMPANIES AND PUBLIC BODIES

The growth of the banking database of clients, the increasing number of channels made available by the banks, the fast assimilation of new technology habits and products by the Brazilian consumers, and a wider portfolio of electronic and banking transactions likely explain the increase of public and private collection and payment transactions.

	Period					Variance
Number of transactions	2000	2001	2002	2003	2004	2004 / 2003
Water, power, sanitation, telephone and gas utility company accounts (*)	1,075,672,612	1,202,366,196	1,049,832,258	1,064,207,532	1,180,686,338	10.90%
Invoices from utility companies automatically debited in the customers' accounts	225,496,375	289,770,253	255,446,281	260,178,539	299,605,170	15.20%
Local, state and federal tax payment forms (FGTS, INSS, DPVAT and Ibama) (**)	411,975,284	427,671,542	503,937,691	590,203,094	628,958,997	6.60%
FGTS and INSS retired people and pensioner payments	239,642,594	247,392,582	253,407,758	331,800,612	393,341,871	18.50%
Total	1,952,786,865	2,167,200,573	2,062,623,988	2,246,389,777	2,502,592,376	11.40%

(\*) All collection channels, except automatic debit

(\*\*) All collection channels, including automatic debit

Source: Febraban

### CREDIT CARD TRANSACTIONS

During the last four years the volume of transactions with credit card have doubled, and exceeded 100 billion Reais in 2004. The number of transactions in the same period grew more than 50%, and reached 1.5 billion. The 17% increase in sales via credit cards in 2004 shows an actual market gain for this universal mean of payment.

							Variance
	Unit	2000	2001	2002	2003	2004	2004 / 2003
Credit cards	Million	28	35.3	41.5	47.5	52.5	11%
Transactions with credit cards	Million	1,004	1,028	1,119	1,285	1,518	18%
Total value of transactions with credit cards	R\$ billion	50.4	62.9	72.2	87.7	103	17%

Source: Brazilian Association of Credit Card and Services Companies (Abecs)

## TECHNOLOGY

### BANKING TRANSACTIONS BY SOURCE

The table below shows the strong impact that automation of financial services has had on the banking sector. Statistics confirm that the increase of Internet transactions (48.5% more than in 2003), the exponential growth and multiplication of payments (above 72.4%) in the thousands POS's (Commercial Points-of-Sale), and the rise of over 30% in transactions carried out via self-service, has resulted in the decrease of the number of checks handled by the clearinghouse, the reduction of near 20% of all transactions made at branches' tellers and a smaller number of calls answered by the call centers.

In millions of transactions	2000		2001		2002		2003		2004		Variance
	Qty	Part. %	Qty	Part. %	Qty	Part. %	Qty	Part. %	Qty	Part. %	2004/2003
Automatic external (1)	557	2.8%	653	2.8%	599	2.8%	610	2.3%	667	2.2%	9.4%
Automatic internal (2)	3,585	18.1%	3,805	16.2%	3,893	18.0%	6,758	25.7%	7,514	25.0%	11.0%
Self-service – ATMs (3)	6,616	33.5%	7,766	33.1%	6,094	28.2%	7,585	28.8%	9,891	32.9%	30.4%
Home and Office Banking - Companies (4)	359	1.8%	664	2.8%	970	4.5%	1,174	4.5%	1,862	6.2%	58.6%
Internet Banking - Individuals (5)	370	1.9%	820	5.0%	1,139	5.3%	1,457	5.5%	2,045	6.8%	40.4%
POS - Commercial point-of-sale (6)	314	1.6%	380	1.6%	549	2.5%	581	2.2%	1,002	3.3%	72.5%
Transactions at the bank cashiers	4,027	20.4%	5,188	22.1%	4,463	20.6%	4,451	16.9%	3,609	12.0%	-19.0%
# of checks cleared	2,638	13.3%	2,600	11.1%	2,397	11.1%	2,246	8.5%	2,107	7.0%	-6.0%
Call Center with operator intervention	130	0.7%	242	1.0%	380	1.8%	321	1.2%	301	1.0%	-6.0%
Call Center (Audio Response Unit)	1,164	5.9%	1,326	5.7%	1,133	5.2%	994	3.8%	850	2.8%	-14.5%
Bank Agents (7)	-	-	-	-	-	-	125	0.5%	187	0.6%	49.6%
Total	19,760	100%	23,444	100%	21,617	100%	26,302	100%	30,035	100%	14.0%

Source: Febraban - (1) automatic debits, salary credit, etc;

(2) Duties, charges, IOF, CPMF, etc;

(3) Drafts, deposits, queries, check issuance, etc;

(4) File transfers, queries, payments, investments, etc;

(5) Queries, transfers, payments, investments, loans, etc;

(6) Payments at stores, supermarkets, fuel stations, etc;

(7) Commercial enterprises, post offices, lottery shops, etc.

## **IN 2004, BANKS INVESTED MORE THAN R\$ 4.2 BILLION IN IT (ABOUT US\$2.1 BILLION)**

After a growth of almost 20% in 2003, the IT investments stabilized at approximately R\$ 4.2 billion. If we consider that this figure has historically represented nearly 30% of the total banks' IT expenses, we can infer that they spent an amount of approximately R\$ 12 billion in technology during 2004. It is important to highlight that, despite the stabilization of investment, there was an actual growth in nominal values due to the Brazilian currency valuation of about 15% in 2004, and the fact that the majority of these investments are in U.S. Dollars.

R\$ million						Variance
	2000	2001	2002	2003	2004	2004/2003
Hardware	1,331	1,476	1,610	1,843	2,010	9%
Equipment / Communication lines	431	301	193	581	384	-34%
Software acquired from third parties	517	509	699	779	850	9%
Software developed in house	613	838	1,035	997	967	-3%
Total	2,892	3,124	3,537	4,200	4,211	0%

Source: Febraban

## ATM – AUTO-SERVICE: EQUIPMENT TYPE AND LOCATION

Given the ease and convenience that multifunctional auto-service terminals and check dispensers provide to users, they continue to grow year after year in terms of the number of operating units. The inquiry-only terminals are expected to have a short life and the machines at which one can make withdrawing and deposits are being renewed. Overall, the number of ATMs installed has shown an average growth of around 10% a year during the last four years.

	Year	At branches	At self-service frond rooms	At kiosks installed in public places	At banking offices	Total	Variance 2004 / 2003
ATM - draft and deposit	2000	4,602	7,476	2,975	586	15,639	16%
	2001	4,717	11,677	3,340	2,803	22,537	
	2002	11,490	14,157	4,396	3,190	33,233	
	2003	16,145	16,636	5,201	3,577	41,559	
	2004	17,225	22,848	3,939	4,208	48,220	
Cash-Dispenser	2000	27,150	13,635	1,063	5,770	47,618	8%
	2001	36,991	13,700	1,557	5,818	58,066	
	2002	33,781	12,916	2,195	5,475	54,367	
	2003	32,210	12,132	2,833	5,131	52,306	
	2004	35,995	10,916	3,490	6,307	56,708	
Deposit terminal	2000	9,086	6,236	14	364	15,700	21%
	2001	10,263	7,627	7	219	18,116	
	2002	9,599	6,889	8	476	16,972	
	2003	8,935	6,151	9	733	15,828	
	2004	10,450	7,154	378	1,192	19,174	
Bank statements and balance terminal	2000	11,663	8,776	30	1,791	22,260	52%
	2001	12,159	10,974	150	976	24,259	
	2002	4,747	2,825	821	916	9,309	
	2003	3,474	762	1,491	1,381	7,108	
	2004	957	1,222	133	1,089	3,401	
Check dispenser	2000	5,961	1,206	12	5	7,184	18%
	2001	6,791	2,260	9	32	9,092	
	2002	8,037	1,884	573	56	10,550	
	2003	9,282	1,963	598	80	11,923	
	2004	10,784	2,504	696	90	14,074	
Total	2000	58,462	37,329	4,094	8,516	108,401	10%
	2001	70,921	46,238	5,063	9,848	132,070	
	2002	67,654	38,671	7,993	10,112	124,430	
	2003	70,046	37,644	10,132	10,902	128,724	
	2004	75,411	44,644	8,636	12,886	141,577	

Source: Febraban

## INITIATIVES FOR USING EMERGING TECHNOLOGIES

The emerging technologies highlighted in this report are in reference to those technologies which most of the banks have already adopted or are planning to adopt: digital certification (95%), document scanning (85%), business intelligence (74%), digital signature (72%), voice over IP protocol for voice transmission, and development of applications in the Linux free-software environment (65%). We must also emphasize the increasing evolution in the number of banks using CRM – relationship management tools, Knowledge Management, Basel II – risk management, Smart Cards, Mobile Banking and e-Procurement technologies.

	Year	Not evaluated	Already adopts	Under evaluation	Will not adopt	Will adopt
CRM	2002	24%	22%	47%	7%	0%
	2003	25%	34%	41%	0%	0%
	2004	15%	45%	15%	10%	15%
Business Intelligence	2002	8%	45%	40%	0%	7%
	2003	4%	64%	27%	0%	5%
	2004	11%	74%	11%	5%	0%
Knowledge Management	2002	35%	25%	33%	0%	7%
	2003	27%	32%	41%	0%	0%
	2004	20%	45%	25%	0%	10%
VoIP	2002	29%	12%	59%	0%	0%
	2003	10%	45%	36%	0%	9%
	2004	10%	55%	20%	5%	10%
e-Procurement	2002	54%	27%	10%	8%	1%
	2003	41%	32%	18%	4%	5%
	2004	30%	40%	20%	0%	10%
Mobile Banking	2002	37%	18%	37%	0%	8%
	2003	18%	36%	36%	10%	0%
	2004	30%	40%	15%	0%	15%
Smart Cards	2002	22%	17%	38%	15%	8%
	2003	18%	32%	32%	9%	9%
	2004	29%	43%	19%	0%	10%
Voice recognition	2002	60%	1%	38%	1%	0%
	2003	64%	9%	27%	0%	0%
	2004	45%	10%	45%	0%	0%
Biometrics ID	2003	40%	23%	32%	5%	0%
	2004	30%	30%	35%	0%	5%
Digital Signature	2003	14%	41%	36%	0%	9%
	2004	5%	48%	24%	0%	24%
Digital Document Certification	2003	5%	50%	27%	0%	18%
	2004	0%	71%	5%	0%	24%
Document scanning	2003	4%	82%	5%	0%	9%
	2004	0%	75%	15%	0%	10%
LINUX	2003	5%	41%	40%	14%	0%
	2004	5%	60%	25%	5%	5%
Basel II	2003	0%	19%	45%	0%	36%
	2004	5%	45%	15%	0%	35%

Source: Febraban



## COMPUTER AND DATA STORAGE RESOURCES AT BANKS

The expansion of nearly 30%, in 2004, in the processing capacity, storage and operation of computer equipment in banks' central data processing departments, reflects the impact resulting from handling higher transaction volumes, developing new applications, as well as the need for more sophisticated controls and the enhancement of banks' management instruments. As for the computer facilities installed at branches and PABs, the numbers remain stable.

<b>Computer resources installed in the central data processing areas and departments of banks</b>				
Equipment type	Measuring unit	2003	2004	Variance 2004 / 2003
Mainframes	MIPS	164,618	194,155	18%
UNIX/LINUX Servers	# of equipment	1,835	2,431	32
Windows Servers	# of equipment	12,428	15,863	28
Workstations/PCs/Notebooks	# of equipment	158,682	185,159	17%
Reboots (tape libraries)	# of equipment	135	141	4%
Disks	Terabytes	2,074	2,730	32%
<b>Computer resources installed in Branches and PABs</b>				
Equipment type	Measuring unit	2003	2004	Variance 2004 / 2003
LAN Servers	# of equipment	32,781	34,099	4%
Cashier Terminal	# of equipment	131,773	120,015	-9%
Workstations/PCs/Notebooks	# of equipment	214,851	215,371	0%

Source: Febraban

## OUTSOURCING - SHARED SERVICES

Hardware and software maintenance services, telecommunications services, applications developed by third parties or software factories, as well as the support from specialized consulting firms, are already an integral part of the outsourcing scenario of banks in Brazil. Frequently, third parties also provide the help desk and printing services. Central Processing Area (CPD) outsourcing or even the installation of a backup site (second CPD) by third parties is not common given the complexity of such operations. Regarding shared services, new partnerships are being formed in addition to the existing ones mostly to share infrastructure of ATM networks.

<b>Outsourcing</b>	<b>Yes</b>	<b>Partial</b>	<b>Under study</b>
Hardware/Software Maintenance	65%	20%	5%
Telecommunications	50%	40%	0%
Third-party applications	50%	45%	5%
Consulting	45%	40%	0%
Help-desk	40%	20%	10%
Printing services	40%	25%	20%
Card processing	35%	20%	5%
System development	30%	65%	5%
Backup site	25%	5%	30%
CPD Operation	15%	30%	5%
<b>Services shared with other banks</b>	<b>Yes</b>	<b>Partial</b>	<b>Under study</b>
Banco 24 Horas (ATMs)	61%	6%	5%
EDI - Electronic Documents Interchange	33%	22%	0%
Clearinghouse service	22%	6%	0%

Source: Febraban

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## IMPORTANT CONTACTS

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### **FEBRABAN – Brazilian Federation of Banks' Associations**

Address: Rua Líbero Badaró, 425 - 17o. andar

01069-900 – São Paulo, SP

Phone: 55-11-3244-9802

Fax: 55-11-3144-8486

E-mail: [secretaria.geral@febraban.org.br](mailto:secretaria.geral@febraban.org.br)

Web site: [www.febraban.org.br](http://www.febraban.org.br)

### **BCB – Brazilian Central Bank**

Address: SBS Quadra 3 – Bloco B – Ed. Sede

70074-900 – Brasília, DF

Phone: 55-61-3414-1360

Fax: 55-61-3414-2410

Web site: [www.bcb.gov.br/English](http://www.bcb.gov.br/English)

## MAJOR EVENTS

### **CIAB - The Information Technology Congress and Exposition of Financial Institutions**

Show organizer: Febraban – Brazilian Bank Federation

Place: Transamerica Expo Center, São Paulo, SP

Date: June 21 – 23, 2006

Frequency: Annual

Contact: Ms. Nair Macedo, General Manager of Events

Phone: 011-55-11-3244-9860

Fax: 011-55-11-3104-4190

E-mail: [eventos@febraban.org.br](mailto:eventos@febraban.org.br)

Web site: [www.ciab.com.br](http://www.ciab.com.br)

### **ABACO - Exhibition and Conference on Banking and Retail Automation**

Show organizer: DIP & Associados

Place: Frei Caneca Convention Center, São Paulo, SP

Date: October 18 and 19, 2006

Frequency: Annual

Contact: Mr. Gilberto Dib

Phone: 55-11-5561-2562

Fax: 55-11-5561-5489

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Web site: [www.dib.com.br/Dib%20CD/ABACO2005/P%C3%A1ginas/ABACO2005\\_Capa.html#](http://www.dib.com.br/Dib%20CD/ABACO2005/P%C3%A1ginas/ABACO2005_Capa.html#)

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- For more information about export opportunities in Brazil please contact US Commercial Service Trade Specialist Paulo Rodrigues at: [Paulo.Rodrigues@mail.doc.gov](mailto:Paulo.Rodrigues@mail.doc.gov)
  - For a good overview of exporting to Brazil, please look at our US Country Commercial Guide to Brazil: [www.focusbrazil.org.br/ccg](http://www.focusbrazil.org.br/ccg)
  - US Commercial Service in Brazil: [www.buyusa.gov/brazil](http://www.buyusa.gov/brazil)
  - For more reports on this sector in other countries, please visit Export.gov's site for US Commercial Service Market Research Worldwide:  
<http://www.export.gov/marketresearch.html>

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